PRESS RELEASE

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India Inc's operating profit margins seen at 18.2-18.5% in Q1 FY2026: ICRA

- ***Interest coverage ratio to improve to around 5.1-5.2 times in Q1 FY2026***

Rating agency ICRA forecasts India Inc's operating profit margins (OPM) at 18.2-18.5% in Q1 FY2026, following the sequential recovery over the past few quarters. This, coupled with a moderation in interest costs, owing to the recent repo rate cuts aggregating to 100 bps, will result in an improvement in the interest coverage ratio for India Inc. to around 5.1-5.2 times in Q1 FY2026, against 5.0 times in Q4 FY2025.

Commenting on the trends, **Kinjal Shah, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA Limited,** said: *"Given the uncertain global environment, ICRA expects the private capital expenditure (capex) cycle to remain measured. However, certain sunrise sectors such as electronics, semi-conductors and niche segments within the automotive space like electric vehicles will continue to see a scale-up in investments, in line with the various production-linked incentives programmes announced by the Government of India (GoI). Further, entities linked with the Indian Railways and Defence sectors would also see their large order books translating into revenues and earnings."*

ICRA's analysis of the performance of 589 listed companies (excluding financial sector entities) in Q4 FY2025 revealed 7.6% YoY revenue growth, supported by improved demand across consumption-oriented sectors like consumer durables, retail, hotels and airlines as well as infrastructure-oriented sectors like power, real estate and construction. On the other hand, sectors like iron and steel saw some decline, following lower realisations owing to weak global demand and influx of cheaper imports from China.

India Inc. is expected to report stable revenue growth in Q1 FY2026 supported by resilient domestic demand - while rural demand is expected to remain healthy, urban demand looks set to recover supported by income tax relief and easing food inflation. Nonetheless, the ongoing geopolitical tensions continue to impact demand sentiments, especially for export-oriented sectors such as agro-chemicals, textiles, auto and auto components, cut and polished diamonds, and IT services.

Corporate India reported a YoY expansion in OPM in Q4 FY2025, by 63 bps to 18.5% reaching its peak since Q4 FY2022. The expansion was on the back of improved operating leverage owing to robust demand led by sectors like power, airlines and real estate, coupled with some moderation in input costs. Moreover, on a sequential basis, the OPM improved by around 41 bps in Q4 FY2025. The interest coverage ratio of ICRA's sample set companies, adjusted for sectors with relatively low debt levels (IT, FMCG and pharmaceuticals), improved on a YoY basis to 5.0 times in Q4 FY2025 from 4.8 times in Q4 FY2024 due to increased profitability. Range-bound debt levels coupled with better profitability of India Inc. in FY2025 across industrial, capital goods and construction sectors led to an improvement in gearing and total debt vis-à-vis operating profit before interest, tax and deprecation.

The recovery in the OPM for India Inc witnessed over the past quarters is likely to be sustained at ~18.2-18.5% in in Q1 FY2026, supported by robust demand owing to improved consumer sentiments and softening of some input costs like crude oil, coal and steel. Coupled with the expected decline in interest costs following the rate cuts, this shall lead to an improvement in the interest coverage ratio to around 5.1-5.2 times in Q1 FY2026.

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